

# REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON TSANTSABANE LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I was engaged to audit the financial statements of the Tsantsabane Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statements of financial performance, changes in net assets, cash flows and the statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraph, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

#### Property, plant and equipment

4. The municipality did not correctly account for infrastructure assets in accordance with GRAP 17, *Property, plant and equipment*. The infrastructure was not properly valued when they were unbundled. Consequently, property, plant and equipment was overstated and accumulated surplus was understated by R290 476 043. Additionally, there was a resultant impact on the, depreciation, accumulated depreciation, surplus for the period and the accumulated surplus. Furthermore I was unable to obtain sufficient appropriate audit evidence for land included in the financial statements, as part of property, plant and equipment, due to the title deeds not supporting ownership of the land and I could not confirm the values of the assets that were unbundled during the year for water and sewerage. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to Property, Plant and Equipment stated at R802 333 171 (2013: R 826 902 680) in the financial statements was necessary.

#### Revenue from non-exchange transactions

5. During 2013, I was unable to obtain sufficient appropriate audit evidence for revenue from non-exchange transactions as the municipality had an inadequate system of internal control to account for revenue and keep proper record of taxation revenue and transfer revenue. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue from non-exchange transactions stated at R77 294 298 in the financial statements was

necessary. My audit opinion on the financial statements for the period ended 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

#### **Revenue from exchange transactions**

6. The municipality did not correctly account for municipal accounts in the prior year for service charges, which resulted in revenue and receivables being understated by R1 343 334. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.
7. I was unable to obtain sufficient appropriate audit evidence for revenue from exchange transactions as the municipality had an inadequate system of internal control to account for revenue and keep proper record of estimated revenue and for the prior year service charges, rental of facilities and equipment and other income. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to revenue from exchange transactions stated at R73 146 329 (2013: R70 717 410) in the financial statements were necessary.

#### **Irregular expenditure**

8. The municipality made payments in contravention of supply chain management requirements, which were not included in irregular expenditure, resulting in irregular expenditure being understated by R13 819 613 (2013: R2 319 957). In addition, I was unable to obtain sufficient appropriate audit evidence as the municipality could not provide all the required supporting documentation and evidence that management has properly identified, investigated and recorded all irregular expenditure. I was unable to confirm the balances by alternative means. Consequently, I was unable to determine whether any adjustments to irregular expenditure stated at R58 074 340 (2013: R53 911 678) in the financial statements was necessary.

#### **Payables from exchange transactions**

9. The municipality did not properly record payables from exchange transaction in accordance with the requirements of the Standards of Generally Accepted Accounting Practice, GRAP 1, *Presentation of financial statements*. The municipality did not have adequate systems to maintain records of payables as there were differences identified between the accounting records and the amounts recorded on the financial statements. Consequently, payables were understated by R11 554 889 and the effect of other component could not be determined as it was impracticable to do so. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.
10. I was unable to obtain sufficient appropriate audit evidence for unallocated deposits, included as part of payables from exchange transactions as the municipality did not have adequate systems to maintain records of payables from exchange transactions. In addition, I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for payables from exchange transactions. As described in note 35 to the financial statements, the restatement was made to rectify a prior year misstatement. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to payables from exchange transactions stated at R23 345 566 (2013: R39 691 088) in the financial statements was necessary.

### **Fruitless and wasteful expenditure**

11. I was unable to obtain sufficient appropriate audit evidence for fruitless and wasteful expenditure, as the municipality could not provide all the required supporting documentation. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to fruitless and wasteful expenditure stated at R45 284 951 (2013: R42 417 590) in the financial statements was necessary.

### **Employee cost**

12. During 2013, I was unable to obtain sufficient appropriate audit evidence for employee cost as the municipality had an inadequate system of internal control to account for employee cost. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to employee cost stated at R43 299 005 in the financial statements was necessary. My audit opinion on the financial statements for the period ended 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Commitments**

13. During 2013, I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality had an inadequate system of internal control to account for commitments. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to commitments stated at R34 104 317 in the financial statements was necessary. My audit opinion on the financial statements for the period ended 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Receivables from exchange transaction**

14. The municipality did not properly record receivables from exchange transactions in accordance with the requirements of the Standards of Generally Accepted Accounting Practice, GRAP 1, *Presentation of financial statements*. The municipality did not have adequate systems to maintain records of receivables from exchange transactions as there were differences identified between the accounting records and the amounts recorded on the financial statements. Consequently, receivable from exchange transaction were overstated by R4 670 428 on the financial statements. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus.
15. I was unable to obtain sufficient appropriate audit evidence for other receivables from exchange transactions as the municipality had an inadequate system of internal control to account for receivables from exchange transactions. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to receivables from exchange transactions stated at R12 891 676 (2013: R9 657 667) in the financial statements was necessary.

### **Contingent Liabilities**

16. I was unable to obtain sufficient appropriate audit evidence for contingent liabilities as the municipality did not have adequate systems to maintain records of contingent liabilities. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to contingent liabilities stated at R13 843 000 (2013: R6 452 439) in the financial statements was necessary.

### **Provisions**

17. I was unable to obtain sufficient appropriate audit evidence for provisions of environmental rehabilitation and long service awards as the municipality did not have adequate systems to maintain records for these provisions. In addition, I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for provisions. As described in note 35 to the financial statements, the restatement was made to rectify a prior year misstatement I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to provision stated at R12 599 246 (2013: R11 982 457) in the financial statements was necessary.

### **Investment property**

18. The municipality did not classify investment property in accordance with GRAP 16, *Investment Property*, as properties leased to municipal officials are classified as part of investment property. Consequently, investment property is overstated and property, plant and equipment understated by R4 020 088, I was not able to determine the amount of investment property incorrectly classified for 2013, as it was impracticable to do so. Additionally, there was a resultant impact on the surplus for the period and accumulated surplus.
19. During 2013, I was unable to obtain sufficient appropriate audit evidence for investment property, as the municipality had an inadequate system of internal control to account for investment property. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to investment property stated at R6 220 595 in the financial statements was necessary. My audit opinion on the financial statements for the period ended 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

### **Receivables from non exchange transaction**

20. The municipality did not properly record Receivables from non exchange transactions in accordance with the requirements of the Standards of Generally Accepted Accounting Practice, GRAP 1, *Presentation of financial statements*. The municipality did not have adequate systems to maintain records of receivables from non exchange transactions as there were differences identified between the accounting records and the amounts recorded on the financial statements. Consequently, receivables from non exchange transactions and revenue from non exchange transactions were understated by R1 132 404 on the financial statements. Additionally, there is a consequential impact on the surplus for the period and the accumulated surplus. Furthermore I was unable to obtain sufficient appropriate audit evidence for receivables from non exchange transactions as the municipality had an inadequate system of internal control to account for receivables from non exchange transactions. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to receivables from non exchange transactions stated at R7 244 760 (2013: R3 579 729) in the financial statements was necessary.

### **Related Parties**

21. The municipality did not disclose related parties in accordance with GRAP 20, *Related Parties*. The relationship, transactions and balances with related parties were not disclosed, as the municipality did not maintain adequate records to facilitate the disclosure of related parties. I was not able to determine the full extent of the understatement in related parties as it was impracticable to do so.
22. No accounting policy has been disclosed for related parties. This is not in accordance with the requirements of GRAP 20 Related parties.

**Material losses**

23. The municipality did not disclose water and electricity distribution losses, as required by Section 125 of the MFMA, as the municipality does not have sufficient available information to facilitate the calculation of losses. I was not able to determine the full extent of the understatement of material losses as it was impracticable to do so.

**Cash flow statement**

24. I was unable to obtain sufficient appropriate audit evidence regarding the cash flow statement, due to the misstatements identified on my audit of various components of the financial statements. I was unable to confirm the cash flow statement by alternative means. Consequently, I was unable to determine whether any adjustment relating to the cash flow statement in the financial statements was necessary.

**Prior year error**

25. The municipality did not disclose depreciation, finance costs and general expenses prior year errors, in accordance with GRAP 3, *Accounting Policies, changes in accounting estimates and errors*, as the municipality did not disclose the nature and extent of the prior year error. I was not able to determine the full extent of the understatement in prior year note as it was impracticable to do so.

**Aggregation of Immaterial uncorrected misstatements**

26. The financial statements were materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following items making up the statement of financial performance:

- Debt impairment reflected at R19 145 610 and the provision for impairment was overstated by R1 360 000.

27. In addition, I was unable to obtain sufficient appropriate audit evidence and to confirm the following item by alternative means:

- Commitments disclosure, R1 531 803.

As a result, I was unable to determine whether any further adjustment to this item was necessary.

**Disclaimer of opinion**

28. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

**EMPHASIS OF MATTER PARAGRAPHS**

29. I draw attention to the matters below. My opinion is not modified in respect of these matters:

**Material impairments**

30. As disclosed in note 8 to the financial statements, a significant provision for the impairment of receivables from exchange transactions was created which constitutes 74.44% (R91 059 867 / R 116 086 703) of the total consumer debtors.

**Material under spending of the conditional grant**

31. As disclosed in note 11 in the financial statements the municipality under spent on the various grants to the amount of R18 586 746 due to delays in projects.

### **Going concern**

32. Note 37 to the financial statements indicates that the municipality's current liabilities exceeded its current assets by R 35 179 974. These conditions, along with other matters as set forth in the section 3 part c of this report indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

### **ADDITIONAL MATTER PARAGRAPHS**

33. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Unaudited supplementary information**

34. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

### **Unaudited disclosure notes**

35. In terms of section 125(2)(e) of the MFMA the Municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

36. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

### **Predetermined objectives**

37. We have audited the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
- a. Development priority 1: Physical Infrastructure on pages x to x
  - b. Development priority 2: Sustainable service on pages x to x
  - c. Development priority 3: Safety and security on pages x to x
38. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
39. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
40. I assessed the reliability of the reported performance information to determine whether

it was valid, accurate and complete.

41. The material findings in respect of the selected development priorities are as follows:

### **Physical Infrastructure**

#### **Usefulness of reported performance information**

42. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported targets were not consistent with those in the approved integrated development plan. This was because management was not aware of the requirements of the FMPPI due to a lack of proper systems and processes

43. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% were not specific.
- Performance targets must be measurable. We could not measure the required performance for 100% of the targets
- The period or deadline for delivery of targets must be specified. A total of 90% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.

This was because management was not aware of the requirements of the FMPPI due to a lack of proper systems and processes

#### **Reliability of reported performance information**

44. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to the auditee's records not permitting the application of alternative audit procedures

### **Sustainable service**

#### **Usefulness of reported performance information**

45. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported targets were not consistent with those in the approved integrated development plan. This was because management was not aware of the requirements of the FMPPI due to a lack of proper systems and processes

46. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% were not specific.
- Performance targets must be measurable. We could not measure the required performance for 100% of the targets
- The period or deadline for delivery of targets must be specified. A total of 23% of the targets were not time bound.

- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.

This was because management was not aware of the requirements of the FMPPI due to a lack of proper systems and processes

#### **Reliability of reported performance information**

47. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the auditee's records not permitting the application of alternative audit procedures

#### **Safety and security**

#### **Usefulness of reported performance information**

48. Section 41(c) of the Municipal Systems Act requires the Integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported targets were not consistent with those in the approved integrated development plan. This was because management was not aware of the requirements of the FMPPI due to a lack of proper systems and processes

49. The FMPPI requires the following:

- Performance targets must be specific in clearly identifying the nature and required level of performance. A total of 100% were not specific.
- Performance targets must be measurable. We could not measure the required performance for 100% of the targets
- The period or deadline for delivery of targets must be specified. A total of 23% of the targets were not time bound.
- Performance indicators must be well defined by having clear data definitions so that data can be collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined.

This was because management was not aware of the requirements of the FMPPI due to a lack of proper systems and processes

#### **Reliability of reported performance Information**

50. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. We were unable to obtain the information and explanations we considered necessary to satisfy ourselves as to the reliability of the reported performance information. This was due to the auditee's records not permitting the application of alternative audit procedures

#### **Compliance with legislation**

51. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA are as follows:



### **Strategic planning and performance management**

52. The local community was not consulted by means of a municipal wide structure for community participation in drafting and implementing the integrated development plan (IDP), as required by section 28 of the Municipal Systems Act (MSA).
53. The adopted integrated development plan did not reflect and identify a financial plan, as required by sections 26 and 41 of the MSA, as well as Municipal planning and performance management (MPPM) regulation 2(1)(c) .
54. The local community was not afforded the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the MSA.
55. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP , as required by section 41(1)(a) of the MSA and the (MPPM) regulation 1 and 9(1)(a).
56. Measurable performance targets for the financial year with regard to each of the development priorities or objectives and key performance indicators were not set in the IDP, as required by section 41(1)(b) of the MSA and the (MPPM) regulations 12(1) and 12(2)(e).
57. The annual performance report for the year under review did not include
  - a comparison of the performance with set targets and a comparison with the previous financial year and
  - measures taken to improve performance, as required by section 46 (1)(a) of the MSA.

### **Budgets**

58. Expenditure was not incurred in accordance with the approved budget, in contravention of section 15 of the MFMA.
59. The total unforeseen and unavoidable expenditure incurred exceeded 5% of own revenue in contravention of Municipal Budget and Reporting Regulation 72.

### **Financial statements, performance and annual reports**

60. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected which resulted in the financial statements receiving a disclaimer audit opinion.

### **Audit committees**

61. The audit committee did not advise the accounting officer on matters relating to internal financial control and internal audits; risk management ; accounting policies ;effective governance ;performance management; performance evaluation as required by section 166(2)(a) of the MFMA.
62. The audit committee did not advise the accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
63. The audit committee did not advise the accounting officer on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
64. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.

65. The audit committee did not respond to the council on the issues raised in the audit reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.
66. The performance audit committee did not review all the quarterly internal audit reports on performance measurement, as required by (MPPM) regulation 14(4)(a)(i).
67. The performance audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by (MPPM) regulation 14(4)(a)(iii).
68. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
69. The performance audit committee did not meet at least twice during the financial year, as required by (MPPM) regulation 14(3)(a).

#### **Internal audit**

70. The internal audit unit did not function as required by section 165(2) of the MFMA, in that, it did not report to the audit committee on the implementation of the internal audit plan.
71. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, the Division of Revenue Act (DoRA) and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

#### **Procurement and contract management**

72. Sufficient appropriate audit evidence could not be obtained that bid specifications were drafted by bid specification committees which were composed of one or more officials of the municipality as required by supply chain management (SCM) regulation 27(3).
73. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
74. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a) & (c).

#### **Human resource management and compensation**

75. Job descriptions were not established for all posts in which appointments were made in the current year, in contravention of section 66(1)(b) of MSA.
76. An acting CFO was appointed for a period of more than three months without the approval by the MEC for local government in contravention of section 54A(2A) of the MSA.
77. The municipal manager and senior managers directly accountable to the municipal manager did not sign performance agreements, as required by section 57(2)(a) MSA.

#### **Expenditure management**

78. Money owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.
79. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Asset and liability management**

80. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

81. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

#### **Consequence management**

82. Unauthorised, Irregular and Fruitless and wasteful expenditure incurred by the was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a)(ii) of the MFMA.

#### **Internal control**

83. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant deficiencies that resulted in the basis for disclaimer opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

#### **Leadership**

84. The accounting officer did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities in terms of ensuring proper records management, maintaining an asset register and preparing the annual financial statements.
85. The accounting officer and senior management did not take timeous and adequate action to address weaknesses in the finance and supply chain management directorate, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful and irregular expenditure.
86. The accounting officer and senior management of the municipality did not ensure that internal control procedures were developed, implemented and monitored to ensure that daily disciplines were performed and reviewed.
87. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.
88. The accounting officer and senior management failed to implement adequate controls to ensure compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

#### **Financial and performance management**

89. Effective performance systems, processes and procedures as well as the management thereof had not been adequately developed and implemented.
90. Inadequate filing procedures at the municipality resulted in limitations of scope during the previous year's audit.
91. The financial statements were not properly reviewed for completeness and accuracy prior to submission for auditing. This resulted in many findings relating to incorrect disclosure.
92. The municipality did not have the capacity to address backlog issues and financial system problems, resulting in the need to appoint consultants. Consultants assisted with the preparation of an asset register and annual financial statements.
93. Finance staff had an insufficient understanding of the accounting framework. This

contributed towards the numerous misstatements in the financial statements of the municipality.

94. Regular, accurate and complete financial reports were not compiled and reviewed by the finance unit of the municipality that were supported and evidenced by reliable information.

#### **Governance**

95. The annual financial statements contained numerous misstatements, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.
96. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
97. Although the municipality had an internal audit division, it was not adequately resourced and functioning to identify internal control deficiencies and provide recommendations.
98. An audit committee and performance audit committee was not effective in the financial year as it was appointed late.

*Auditor - General*

Kimberley

12 December 2014



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*